

Financial Scrutiny and Audit Committee

11 February 2015

Agenda Item No 10

External Audit
Report by Head of Finance

Summary: This report appends:

- (i) the Annual Audit Letter for 2013/14
- (ii) the Audit Plan for the 2014/15 audit
- (iii) the Local Government Audit Committee Briefing by Ernst & Young.

Recommendation:

- (i) That the Annual Audit Letter for 2013/14 be noted.
- (ii) That the Audit Plan for the 2014/15 audit be noted.
- (iii) That the briefing, including the key questions for Audit Committees as set out on page 8, be noted.

1 Introduction

- 1.1 The Annual Audit letter for 2013/14 summarises the key issues arising from the audit. These key findings are set out on page 6 of appendix 1.
- 1.2 The Audit Plan for the 2014/15 audit by Ernst & Young is appended to this report (appendix 2). The plan sets out the work which the auditors propose to undertake for the audit of the financial statements and the value for money conclusion for 2014/15. It confirms that the proposed audit fee will be £13,943, which represents no change from the fee charged in 2013/14.
- 1.3 The Audit Director, Neil Harris, and the Audit Manager, David Riglar, will be attending the meeting to introduce the Audit Plan and answer any questions.

2 Identification of Significant Risks

- 2.1 The Audit Plan takes a risk-based approach to audit planning and identifies one significant risk in 2014/15, which relates to misstatement due to fraud and error.
- 2.2 The audit approach to these risks is set out in section two of the Audit Plan.

3 Financial Implications

- 3.1 Provision for the audit fee is included in the 2014/15 budget and will be charged in the accounts for the year.

4 Briefing Key Issues

4.1 This briefing is presented to Members as a “for information” item.

4.2 The items of relevance to the Authority are:

- The economic and sector issues update, in particular regarding contract out public services to private sector (page 2 onwards);
- The Local Governments Association funding gap (page 3)
- The update on the Future of Local Audit (page 5); and
- The key questions for the Audit Committee (page 8).

Background papers: None

Author: Emma Krelle
Date of report: 27 January 2015

Broads Plan Objectives: None

Appendices: APPENDIX 1 – Ernst & Young Annual Audit Letter 2013/14
APPENDIX 2 – Ernst & Young Audit Plan 2014/15
APPENDIX 3 – Ernst & Young Local Government Audit Committee Briefing (November 2014)

Annual Audit Letter

Broads Authority

20 October 2014



Building a better
working world

The Members
Broads Authority
Yare House
62-64 Thorpe Road
Norwich
NR1 1RY

20 October 2014

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Broads Authority and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of Broads Authority in the 2013/14 Audit Results Report issued to the Financial Scrutiny and Audit Committee on 10 September 2014.

The matters reported here are the most significant for the Authority.

I would like to take this opportunity to thank the officers of Broads Authority for their assistance during the course of our work.

Yours faithfully

A handwritten signature in dark ink, appearing to be 'Neil Harris', with a stylized, cursive script.

Neil Harris
Director
For and behalf of Ernst & Young LLP
Enc

Contents

Executive summary..... 1

Key findings..... 3

Control themes and observations 5

Fees update 6

Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 11 February 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on an annual basis on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Broads Authority for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 26 September 2014 we issued an unqualified audit opinion in respect of the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 26 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Audit Committee) communicating significant findings resulting from our audit.	On 10 September 2014 we issued our report in respect of the Authority.
Notify the NAO that the Authority is below the Whole of Government Accounts threshold and provide the supporting calculations to confirm.	We reported our findings to the National Audit Office on 25 September 2014.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.

Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.

No issues to report.

Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

On 26 September 2014 we issued our audit completion certificate.

Key findings

Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 26 September 2014.

In our view, the quality of the process for producing the accounts, including the supporting working papers was good.

The main issues identified as part of our audit were:

Significant risk 1: Valuation of property, plant and equipment

The last full valuation of property, plant and equipment was 2012. This increases the risk that assets are not recorded at the correct value.

We agreed the revaluations to reports provided by the Authority's valuation expert. We assessed the qualifications, independence and scope of the Authority's valuation expert to ensure we could rely upon the valuation reports provided.

We have no issues to report from our comparison to industry trends and the accounting treatment of revaluations.

Other risk 1: Accounting for lease arrangements

The lease on Yare House included a rent free period which was not correctly accounted for in 2012/13. Officers have identified the error and made a correction in the 2013/14 accounts.

We reviewed the accounting treatment of the Yare House lease to ensure it had been correctly stated and sample tested other lease agreements to ensure the treatment was correct.

We have no issues to report from our review of lease arrangements.

Other risk 2: Risk of misstatement due to fraud and error

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

We have designed and implemented appropriate procedures to obtain reasonable assurance as to whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. This included testing capital expenditure to ensure the nature of the costs were not revenue costs.

There were no issues arising from this work.

Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Audit Commission has determined that the scope of our work on value for money at the Authority is limited to a review of your annual governance statement (AGS) unless any specific risks are identified.

We issued an unqualified value for money conclusion on 26 September 2014. Our audit did not identify any significant matters.

Whole of government accounts

We notified the National Audit Office that the Authority is below the Whole of Government Accounts threshold. We reported that the PPE disclosures and the pension liabilities in the Authority's consolidation pack are consistent with the audited statutory accounts.

Annual governance statement

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance. We completed this work and did not identify any areas of concern.

Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we communicate to those charged with governance at the Authority, as required, any significant deficiencies in internal control.

Our audit did not identify any control issues that we need to bring to your attention.

Fees update

A breakdown of our agreed fee is shown below.

	Final fee 2013/14 £	Planned fee 2013/14 £	Actual fee 2012/13 £
Total Audit Fee – Code work	13,943	13,943	13,943

We communicated our planned fee to you within our Audit Plan issued in February 2014; providing an estimated update within our Audit Results Report issued in September 2014.

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Broads Authority

Year ending 31 March 2015

Audit Plan

10 February 2015



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The Members
Broads Authority
Yare House
62-64 Thorpe Road
Norwich
NR1 1RY

10 February 2015

Email: nharris2@uk.ey.com

Dear Members

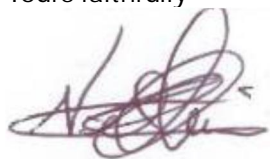
Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Financial Scrutiny and Audit Committee with a basis to review our proposed audit approach and scope for the 2014/15 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for the Broads Authority, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you on 10 February 2015 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Neil Harris
Director
For and on behalf of Ernst & Young LLP
Enc

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Contents

1. Overview.....	1
2. Financial statement risks	3
3. Economy, efficiency and effectiveness	4
4. Our audit process and strategy.....	5
5. Independence	10
Appendix A Fees.....	13
Appendix B UK required communications with those charged with governance	14

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

1.1 Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with:

- ▶ Our audit opinion on whether the financial statements of the Broads Authority give a true and fair view of the financial position as at 31 March 2015 and of the income and expenditure for the year then ended; and
- ▶ A statutory conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on your Whole of Government Accounts return.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements.
- ▶ Developments in financial reporting and auditing standards.
- ▶ The quality of systems and processes.
- ▶ Changes in the business and regulatory environment.
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter. And by focusing on the areas that matter, our feedback is more likely to be relevant to the Broads Authority.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In part 2 and 3 of this report we provide more detail on the areas which we believe present significant risk to the financial statements audit, and outline our plans to address these risks. Details of our audit process and strategy are set out in more detail in section 4 and summarised below.

We will provide an update to the Financial Scrutiny and Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2015.

1.2 Our process and strategy

- ▶ Financial Statement Audit
 - ▶ We carry out an initial assessment of materiality using the audited financial statements for 2013/14 but will update this when we receive the draft financial statements. We will report unadjusted misstatements identified except those that are “clearly trivial” to the Financial Scrutiny and Audit Committee.
 - ▶ We will seek to rely on controls where this is possible and represents the most efficient approach to our audit.
 - ▶ We are pleased to report that there are no changes proposed to the Audit Director and Audit Manager for 2014/15
- ▶ Arrangements for securing Economy, Efficiency and Effectiveness
 - ▶ We adopt an integrated audit approach such that our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

2. Financial statement risks

We outline below our assessment of the key strategic or operational risks and the financial statement risks facing the Broads Authority, identified through our knowledge of the entity's operations and discussion with members and officers.

At our meeting, we will seek to validate these with you. In our planning work so far, we have identified one significant financial statement risk.

Significant risks (including fraud risks)	Our audit approach
Risk of misstatement due to fraud and error	
<p>ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.</p> <p>Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.</p> <p>Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.</p>	<p>Based on the requirements of auditing standards our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Identifying fraud risks during the planning stages. ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks. ▶ Understanding the oversight given by those charged with governance of management's processes over fraud. ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud. ▶ Determining an appropriate strategy to address those identified risks of fraud. ▶ Performing mandatory procedures regardless of specifically identified fraud risks.

3. Economy, efficiency and effectiveness

As set out in the Audit Commission's Work Programme and Scales of Fees 2014/15: Local Government the approach to local VFM work is limited to:

- ▶ Reviewing the annual governance statement.
- ▶ Reviewing the results of the work of the Commission and other relevant regulatory bodies or inspectorates, to consider whether there is any impact on the auditor's responsibilities at the audited body.
- ▶ Undertaking other local risk-based work as appropriate, or any work mandated by the Commission.

In our planning work so far, we have not identified any significant risks which are relevant to our conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources.

However, we note the level of uncertainty relating the National Parks Grant. The Authority is likely to face further cuts to the National Parks Grant in 2015/16 and in future years. The management team are exploring different scenarios to increase income and reduce expenditure.

We will continue to monitor the Authority's arrangements throughout our audit, including achievement of the 2014/15 budget, financial planning for 2015/16 and 2016/17 and the robustness of any savings plans and future projected reserve levels.

If our assessment of risk changes based on this work, we will report this to the Financial Scrutiny and Audit Committee.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principle objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Authority's:

- ▶ financial statements; and
- ▶ arrangements for securing economy, efficiency and effectiveness in its use of resources.

We issue a two-part audit report covering both of these objectives.

4.1.1 Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on your Whole of Government Accounts return.

4.1.2 Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Authority's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

4.2 Audit process overview

Our audit involves:

- ▶ Assessing the key internal controls in place and testing the operation of these controls
- ▶ Reliance on the work of other auditors where appropriate
- ▶ Reliance on the work of experts in relation to areas such as property valuations
- ▶ Substantive tests of detail of transactions and amounts

4.2.1 Processes

We plan to rely on management procedures that operate at the financial statement or transactional level.

Our initial assessment has identified the following key processes that we will test:

- ▶ Clear communication of roles and responsibilities.
- ▶ Authorisation of significant transactions.
- ▶ Procedures to prepare financial statements.
- ▶ Management's review of the entity's financial performance.

4.2.2 Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular in respect of payroll and journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests.
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Financial Scrutiny and Audit Committee.

4.2.3 Internal audit

As in prior years, we will review Internal Audit plans and the results of work undertaken. We will reflect the findings from these reports, together with reports from other work completed in the year, in our detailed audit plan, where issues are raised that could impact the year-end financial statements.

4.2.4 Use of experts

We will utilise specialist Ernst & Young resource, as necessary. Our plan currently includes the involvement of specialists in valuations to assess the valuations carried out by the Authority's Valuer.

Mandatory procedures required by auditing standards on:

- ▶ Addressing the risk of fraud and error.
- ▶ Significant disclosures included in the financial statements.
- ▶ Entity-wide controls.
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the annual governance statement.
- ▶ Reviewing and reporting on the Whole of Government accounts return, in line with the instructions issued by the NAO.
- ▶ Reviewing, and where appropriate, examining evidence that is relevant to the Authority's corporate performance management and financial management arrangements and reporting on these arrangements.

4.3 Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We have determined that overall materiality for the financial statements of the Broads Authority is £169,860 based on 2% of gross revenue expenditure on services.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

ISA (UK & Ireland) 450 (revised) requires us to record all misstatements identified except those that are "clearly trivial". We intend to treat misstatements less than £8,493 as clearly trivial. All uncorrected misstatements found above this amount will be presented to you in our year-end audit results report.

4.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of the Broads Authority is £13,943.

4.5 Your audit team

The engagement team is led by Neil Harris who has significant experience of the Authority's audit. Neil is supported by David Riglar who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the Head of Finance. Mark Russell will supervise the on-site audit team and is responsible for raising and discussing emerging issues, Mark is also a point of contact for the Head of Finance.


The audit team give valuable continuity and knowledge of the Broads.

4.1 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the whole of government accounts; and the deliverables we have agreed to provide to you through the Financial Scrutiny and Audit Committee cycle in 2015. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We will provide a formal report to the Financial Scrutiny and Audit Committee in September 2015. From time to time matters may arise that require immediate communication with the Financial Scrutiny and Audit Committee and we will discuss them with the Financial Scrutiny and Audit Committee Chairman as appropriate.

Following the conclusion of our audit we will prepare an annual audit letter in order to communicate to the Broads Authority and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Financial Scrutiny and Audit Committee timetable	Deliverables
High level planning	March 2014		Audit Fee letter
Risk assessment and setting of scopes	January 2015		Audit Plan
Walkthrough of routine processes and controls	February 2015		Reporting of any significant matters if required
Draft accounts	June 2015		Accounts received for audit
Year-end audit including WGA	August – September 2015		
Reporting	September 2015	September 2015	Report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources).
			Audit completion certificate
Reporting	October 2015		Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission's Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. However we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

5.2.1 Self interest threats

A self interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees or agreed non-audit services.

We believe that it is appropriate for us to undertake permissible non-audit services. We will help the Authority establish policies that are in compliance with the Audit Commission's Standing Guidance if non-audit services are agreed.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard 4.

There are no other self interest threats at the date of this report.

5.2.2 Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

5.2.3 Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

5.2.4 Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

The Audit Commission's standing guidance for auditors requires confirmation, before the start of the sixth year of an individual auditor's work on an engagement, that there are no independence issues that would preclude an extension for an additional period of up to no more than two years. This is Neil Harris's sixth year on the Broads Authority audit, we have agreed with the Audit Commission that there are no independence issues that would preclude an extension for a maximum of two years.

There are no other threats at the date of this report.

5.2.5 Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Neil Harris, your audit engagement partner and the audit engagement team have not been compromised.

5.3 Other required communications

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 30 June 2014 and can be found here:

[UK 2014 Transparency Report](#)

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2014/15	Actual Fee 2013/14
	£	£
Total Audit Fee – Code work	13,943	13,943

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ We are able to place reliance, as planned, on the work of internal audit;
- ▶ The level of risk in relation to the audit of accounts is consistent with that in the prior year;
- ▶ No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- ▶ Our accounts opinion and use of resources conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the audited body;
- ▶ Effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with you in advance.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Financial Scrutiny and Audit Committee of audited clients. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits 	Report to those charged with governance
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Report to those charged with governance
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the Financial Scrutiny and Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Report to those charged with governance
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Report to those charged with governance

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Report to those charged with governance
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Financial Scrutiny and Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Financial Scrutiny and Audit Committee may be aware of 	Report to those charged with governance
<p>Independence</p> <p>Communication of all significant facts and matters that bear on Ernst & Young's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit Plan</p> <p>Report to those charged with governance</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Report to those charged with governance
Significant deficiencies in internal controls identified during the audit	Report to those charged with governance
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<p>Audit Plan</p> <p>Report to those charged with governance and Annual Audit Letter if considered necessary</p>

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Local Government Audit Committee Briefing

Contents at a glance

Government and economic news

Accounting, auditing and Governance

Regulation news

Key Questions for the Audit Committee

Find out more

Introduction

This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving. It covers issues which may have an impact on your organisation, the Local government sector and the audits that we undertake. The public sector audit specialists who transferred from the Audit Commission form part of EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY's UK and international business. This briefing reflects this, bringing together not only technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authority bodies. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.



Building a better
working world



Government and economic news

EY Item Club: Autumn 2014 Forecast

ITEM Club is the only nongovernmental economic forecasting group to use the HM Treasury model of the UK economy, independent of any political, economic or business bias. The Autumn 2014 report summarises the latest quarterly forecast and gives EY's assessment.

The ONS's recent revisions to the UK's historical economic data have given a very different perspective on the shape of the recession and subsequent recovery.

Consumer spending remains subdued by falling real wages, which has helped to keep inflation at bay. Inflation as measured by the CPI was just 1.2% in September, the lowest reading in five years and ninth successive month that it has been below 2%. Whilst falling prices for food and petrol have played a role in keeping inflation down, underlying price pressures are also well contained. Since consumer spending has been subdued, business investment has now taken over as the engine of recovery; with capital spending accounting for almost half the rise in GDP in the past year. UK GDP has been revised up, meaning it actually passed its previous high-point in 2013, and that output is now well above the 2008 peak.

This picture is more consistent with the strong growth in employment. The upward revisions to business investment have been particularly pronounced; meaning the scope for catch up is less than previously thought. Despite the growing risks and uncertainties, EY Item club is projecting GDP growth of 3.1% in 2014, followed by a slight easing to 2.4% growth in 2015 and 2.3% in 2016, and then a modest uptick in 2017.

Contracting out public services to the private sector

In the last briefing we considered the response of the House of Commons Committee of Public Accounts (the 'PAC') to evidence including the National Audit Office report 'The role of major contractors in the delivery of public services' and submissions from central government bodies.

The PAC made a range of recommendations in four key areas. In the previous briefing we looked at contract management and delivery. We will now consider Capability, Transparency and Ethical Standards.

Capability

The PAC found that, often, there is a lack of expertise within central government to extract the greatest value from contracting with private providers.

We often find that both public and private sector organisations lack clear lines of responsibility for contract management, which falls between procurement, operations and finance functions. A greater focus on contract governance would enable local authorities to ensure that accountability is clear and that experienced contract managers have the necessary training and skills for this important role.

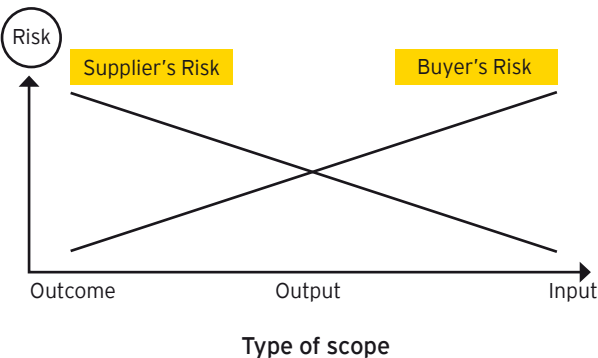
Transparency

Calls for increased transparency include recommendations that the public sector makes greater use of 'open-book' accounting. This is something we would endorse, especially where contracts are constructed around the purchase of 'inputs' such as labour on a daily or hourly rate.



Government and economic news

Furthermore, we would recommend that the public sector considers whether it can purchase services based around outcomes, rather than inputs, as these can help to mitigate the buyer's risk as illustrated below:



Ethical standards

The PAC emphasised the value of effective whistleblowing policies. Our experience shows that many private sector suppliers have whistleblowing policies. However, these tend not to provide a direct link from the potential whistleblower to the public sector buyer, sometimes reducing the effectiveness of these policies.

However, in order for whistleblowing to be a truly effective contract management tool, the buyer needs to have appropriate routes to provide rights of access to a contractor's employees as well as its accounting records, plus the teams with the necessary skills and experience to investigate contract performance.

Summary

At a time when local authorities continue to look for savings, the PAC Report provides a timely reminder that effective contract management can both:

- ▶ Be a means by which savings can be achieved
- ▶ Help to improve public confidence in the use of public funds

Councils face a £5.8 billion shortfall in funding says LGA

The Local Government Association (LGA) has published its Future Funding Outlook 2014, which notes that the funding gap, created by a combination of funding cuts and spending pressures, is growing at an average rate of £2.1 billion per year. Spending on social care and waste management, both of which have significant statutory elements, is taking up an increasing proportion of the funding available to councils, which means that according to the LGA model, funding for other council services will drop by 43% in cash terms by the end of the decade. Council expenditure has fallen significantly since 2010-11 in all areas other than public transport, children's social care, adult social care and waste management and other environmental services. However, assuming consistent service levels, and taking into account cost drivers and assumed efficiency levels, the LGA model predicts that total expenditure will rise from £51.1 billion in 2013-14 to £55.7 billion in 2019-20, whereas total funding will fall by £10.6 billion when the impact of ring-fenced funding for public health is excluded. Bringing together the predicted income and expenditure trends, the LGA forecasts a gap of £12.4 billion between funding and net expenditure by 2019-20. LGA research indicates that in many authorities savings are starting to come from service reductions rather than efficiencies, and that in 2015-16, savings will be achieved more through service reductions than through efficiencies. The funding gap by the end of 2015-16 is forecast to be £5.8 billion, of which £1.9 billion relates to adult social care.



Government and economic news

Independent commission on local government finance

The Local Government Association and the Chartered Institute for Public Finance Accountancy have together established the Independent Commission on Local Government Finance, which is chaired by Darra Singh, a partner in EY's Government and Public Sector team. The Commission aims to build on the work of the LGA and CIPFA, who individually set out proposals for public service reform, and will consider five key challenges:

- ▶ Promoting economic growth and investment in infrastructure
- ▶ Ensuring sufficient housing is provided in every place
- ▶ Integrating the health and social care systems to promote independent living, including preventing unnecessary health intervention
- ▶ Achieving a welfare benefits system that promotes work and protects the vulnerable
- ▶ Supporting families and developing young lives through early intervention

The Commission aims to shape the debate on local government finance, and to influence the next government. It published an interim report in October, and its final recommendations are due out in early 2015.

The interim report contains the following key points:

- ▶ The need for reform is urgent and creates an opportunity to establish a funding system for local government which is largely self-sufficient.
- ▶ Councils have a role to play in addressing the chronic housing shortage, and should be able to borrow to invest in social housing.
- ▶ The Commission will be looking at the option of creating central funds which offer to match-fund local partnership contributions in order to support early intervention for children and families.
- ▶ Larger investment in transformation is needed for the delivery of integrated care.



Accounting, Auditing and Governance

Future of Local Audit

As part of its consultation on Local Audit Regulations associated with the Local Audit and Accountability Act, which ended on 18 July 2014, the government is proposing to bring forward the dates for the accounts to be signed and certified by the Responsible Financial Officer, then approved and published, from 30 June and 30 September respectively to 31 May and 31 July respectively. They propose that this change would take place from the 2017-18 accounts, but hope that authorities will move to the new timetable as soon as possible.

The consultation also covers collective auditor procurement by a specified person. Under the intended regulations, authorities would be able to opt in to sector-led procurement arrangements, and have an auditor appointed on their behalf, rather than appointing their own auditor locally. Under the draft regulations, the Secretary of State may specify the Appointing Person, and may specify different appointing persons for different groups or types of audited bodies.

Grant claim certification results

The Audit Commission has published a report on its findings from the 2012-13 grant claim certification process. As well as adjustments to claims worth £17.3 million, auditors issued qualification letters for 360 claims and returns. This included:

- ▶ 255 Housing Benefit subsidy claims, 78% of the total,
- ▶ 55 Teachers' Pensions returns, 36% of the total,
- ▶ 39 National Non-domestic Rates returns, 12% of the total

From 2013-14, non-domestic rates returns no longer require auditor certification. Teachers' Pensions has decided to make its own certification arrangements for 2013-14, however the Audit Commission and, after March 2015, its successor transitional body will continue to make certification arrangements for housing

benefit subsidy. Council tax benefit was replaced in 2013-14 with local authority run schemes, which do not require auditor certification. Other grant paying bodies will need to make their own assurance arrangements from 2014-15 onwards.

The purpose of qualification letters is to make a grant paying body aware of issues with a claim or return, typically issues for which it is not possible or cost-effective to quantify the full financial impact. The Department for Work and Pensions issued a subsidy circular (HB S4-2014) in May 2014, reiterating the responsibilities of local authorities to ensure their subsidy claims are:

- ▶ Completed accurately and in accordance with HB subsidy guidance and circulars
- ▶ Supported by systems of internal control, including systems of financial control and internal audit
- ▶ Completed in a timely manner
- ▶ Supported by adequate working papers
- ▶ Subject to supervision and review before completion of the authority's certificate
- ▶ Certificate given by an appropriate officer, typically the responsible finance officer

The circular also states the Department's intention to contact all local authorities whose subsidy claims have been qualified. It will require an outline of the actions taken to address the issues raised. In cases with recurrent qualification issues, the Department will also visit those authorities.

Protecting the public purse: 25 years on

Detection of fraud in England in 2013-14 by Councils and other local government bodies was at its highest level since the recording of fraud was established some 25 years ago by the Audit Commission. The total figure of £188mn was a 10 fold increase on



Accounting, Auditing and Governance

the first recorded figure in 1990. The Audit Commission was and is the sole provider of comprehensive data on all types of fraud detected by local authorities. This is due to the statutory powers the Commission has, to demand that local government bodies provide such data.

The Audit Commission's Chairman, Jeremy Newman commented: 'I urge the government to mandate the provision of fraud data from all local authorities, after the Commission's closure, to ensure that future reports are able to provide as complete and authoritative a picture of fraud detection as 'Protecting the Public Purse'. This would help preserve the high levels of transparency and accountability that English councils currently exhibit in their approach to countering fraud and prevent those councils that are not yet playing their part in the fight against fraud, from avoiding public scrutiny.'

The Audit Commission has also released a checklist for elected members, designed to help them analyse their council's results and assess how the NFI is integrated into the council's processes and counter-fraud policies. The Commission recommends that public audited bodies should consider whether it is possible to make better use of matches, and use NFI matches in conjunction with matching services from other providers. It also recommends that local authorities should ensure they retain sufficient capability to investigate non-housing benefit fraud, after the introduction of the Single Fraud Investigation Service.

The Commission's Fraud Team will be moving to CIPFA as part of the closure of the Audit Commission.

The Cabinet Office and the Audit Commission will be working together to ensure the smooth transfer of the NFI functions when the Audit Commission closes in March 2015.

Audit fees at a 25 year low as part of the Audit Commission's legacy

In its last full year of operation before being officially wound down on 31 March 2015 the Audit Commission has announced that it is reducing audit fees by approximately £30 million between 2015-2017. If the government decides to extend and lock in the 2012 and 2014 audit contracts until 2020, it is expected that the total value of savings to local government, police, fire and NHS bodies would be approximately £440mn.

Chairman of the Audit Commission, Jeremy Newman says: 'We have driven down prices for audit services, showing again that bulk procurement is the best way to maintain a competitive market and provide taxpayers with value for money. The resulting savings are part of the legacy the Commission will leave after March 2015, and will be enjoyed by local authorities and NHS bodies for years after our closure. Fees should be preserved at this level for 2016-17 and we hope the government will take the opportunity we have secured to lock in and extend the savings we have achieved up to 2020.'

In addition to the above savings, the Commission also intends to return approximately £6mn as a rebate to Local Government and NHS bodies in 2014-15

A transitional body, Public Sector Audit Appointments Limited (PSAAL), has been established by the Local Government Association to oversee the management of the Audit Commission's external audit contracts until they end in 2017 or are possibly extended until 2020. The PSAAL will be responsible for setting fees, appointing auditors and monitoring the quality of auditors' work. They will also be responsible for publishing the Commission's Value for Money Profile tool.



Regulation News

Open and Accountable Government

The government has introduced a new law allowing the press and public to film and digitally report (including tweeting and blogging) from all public meetings of local government bodies. These rules will apply to all public meetings including town and parish councils, and fire and rescue authorities. The regulations also give members of the press and public rights to see information related to significant decisions made outside meetings by officers acting under general or specific delegated powers.

Whistleblowing

The Department for Business, Innovation and Skills (BIS) has recently launched a consultation, which closed at the end of September 2014, seeking views on the practical implementation of a legal power requiring prescribed persons to report annually on whistleblowing disclosures. Because of the duty of confidentiality binding prescribed persons, and a lack of legal obligation to investigate, BIS found that whistle-blowers do not have confidence that their reports are investigated. The Department is therefore introducing a reporting requirement in order to ensure more systematic processes across prescribed bodies, and to provide greater reassurance to whistle-blowers that their reports are being

acted on. The reports would not provide specific detail enabling the whistle-blower or the organisation about which the report is made to be identified, but would contain more generic information about the number of disclosures made, and the characteristics of those disclosures, such as whether they required further investigation or referral to an alternative body.

Meanwhile, the Parliamentary Commission on Banking Standards (PCBS) has published recommendations for enhancing corporate transparency, governance and integrity. Eleven of the PCBS' recommendations relate specifically to whistleblowing. The Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) have indicated their intention to adopt all eleven and consequently we can expect change to the regulatory landscape in the near future. We also noted earlier, that whistleblowing was an area raised by the PAC, who emphasised the value of effective whistleblowing policies.

Whistleblowing is therefore clearly a key area for consideration, for both the public and private sectors.

EY has produced a whistleblowing flyer to help you to consider your whistleblowing framework's effectiveness, and whether your culture encourages employees to raise concerns.



Key Questions for the Audit Committee

What questions should the Audit Committee be asking itself?

- ▶ Do we have clear lines of responsibility for contract management?
- ▶ Have we considered whether use of outcome based contracts could mitigate our 'buyers' risk'?
- ▶ Have we responded to the questions raised in Appendix 2 of the latest NFI report?
- ▶ How effective is our whistleblowing policy?



Find out more

EY Item Club: Autumn 2014 Forecast

Find EY Item Club's Autumn 2014 forecast at:

[http://www.ey.com/Publication/vwLUAssets/EY-ITEM-Club-Autumn-Forecast-2014-full-report/\\$FILE/EY-ITEM-Club-Autumn-Forecast-2014-full-report.pdf](http://www.ey.com/Publication/vwLUAssets/EY-ITEM-Club-Autumn-Forecast-2014-full-report/$FILE/EY-ITEM-Club-Autumn-Forecast-2014-full-report.pdf)

Contracting out public services to the private sector Read the NAO report at:

<http://www.nao.org.uk/wp-content/uploads/2013/11/10296-001-BOOK-ES.pdf>

To find out how EY can help with contract management, contact a member of your engagement team.

Councils face a £5.8 billion shortfall in funding says LGA

Read the LGA's press release, on what they have termed the '£5.8bn funding black hole' at

http://www.local.gov.uk/web/guest/finance/-/journal_content/56/10180/6309034/NEWS.

Find the full report at:

<http://www.local.gov.uk/documents/10180/5854661/L14-340+Future+funding+-+initial+draft.pdf/1854420d-1ce0-49c5-8515-062dcca2c70>

Independent Commission on Local Government Finance

Read the Commission's interim report at:

http://www.localfinancecommission.org/-/media/iclgf/documents/l14536%20interim_report_web_v2.pdf

Future of Local Audit

<https://www.gov.uk/government/consultations/local-audit-regulations>

Grant Claim Certification Results

Read the full Audit Commission report at:

<http://www.audit-commission.gov.uk/wp-content/uploads/2014/06/Local-government-claims-and-returns-final-17-June-2014.pdf>

The DWP circular is also available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/309613/s4-2014.pdf



Find out more

Audit fees at a 25 year low as part of the Audit Commission's legacy

Read the full Audit Commission press release at:

<http://www.audit-commission.gov.uk/2014/10/wpsf1516pr/>

Protecting the Public Purse: 25 years on

Read the final NFI report produced by the Audit Commission before its closure in March 2015 at:

<http://www.audit-commission.gov.uk/wp-content/uploads/2014/10/Protecting-the-Public-Purse-2014-Fighting-Fraud-against-Local-Government-online.pdf>

Open and Accountable Government

The guide for press on attending and reporting meetings of local government is available at:

<https://www.gov.uk/government/publications/open-and-accountable-local-government-plain-english-guide>

Whistleblowing

Feedback from the consultation is currently being analysed. The output from the consultation when it becomes available will be accessed via:

<https://www.gov.uk/government/consultations/whistleblowing-prescribed-persons-reporting-requirements>

To download the EY flyer on whistleblowing, visit:

[http://www.ey.com/Publication/vwLUAssets/EY_-_Whistleblowing_-_change_is_coming/\\$FILE/EY-whistleblowing.pdf](http://www.ey.com/Publication/vwLUAssets/EY_-_Whistleblowing_-_change_is_coming/$FILE/EY-whistleblowing.pdf)

For more information on how EY can help you enhance your existing whistleblowing framework, speak to a member of your engagement team.



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